NBSO
ERNB

NEW BRUNSWICK SYSTEM OPERATOR

Annual Report

2009-10

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Mission Statement

The New Brunswick System Operator facilitates a fair, efficient and openly competitive market for electricity; and provides for the well-planned, safe, reliable and economic operation of the interconnected electricity system for the region served.

Vision

To be the leader in the planning and operation of a reliable, well coordinated, cost efficient, environmentally sustainable regional electricity system.

Corporate Profile

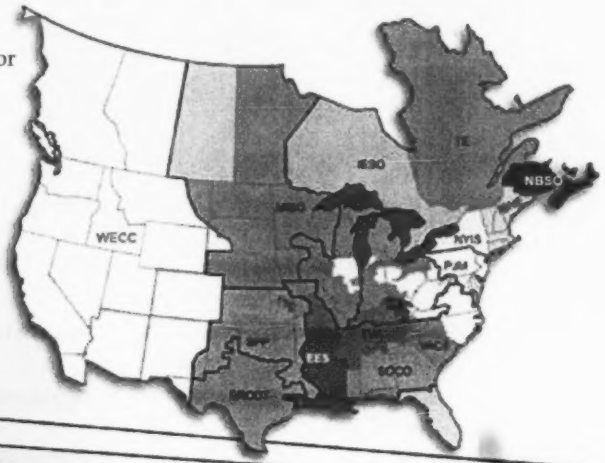
The NBSO is an independent, not for profit statutory corporation created under New Brunswick's Electricity Act on October 1, 2004.

Roles of the NBSO

The NBSO has five key roles:

- Market Operator for New Brunswick
- Balancing Authority for New Brunswick, Prince Edward Island and Northern Maine
- Reliability Coordinator [one of 16 Reliability Coordinators in North America] for the region of New Brunswick, Nova Scotia, Prince Edward Island and Northern Maine
- Planning Coordinator
- Transmission Operator

NERC Reliability Coordinators

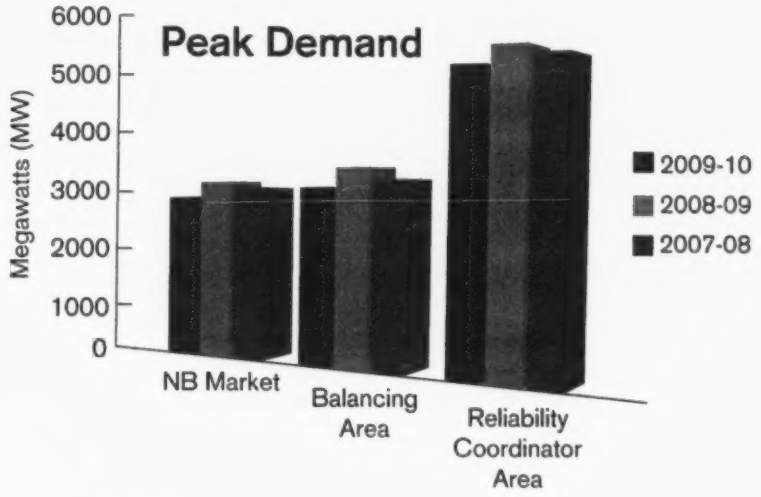


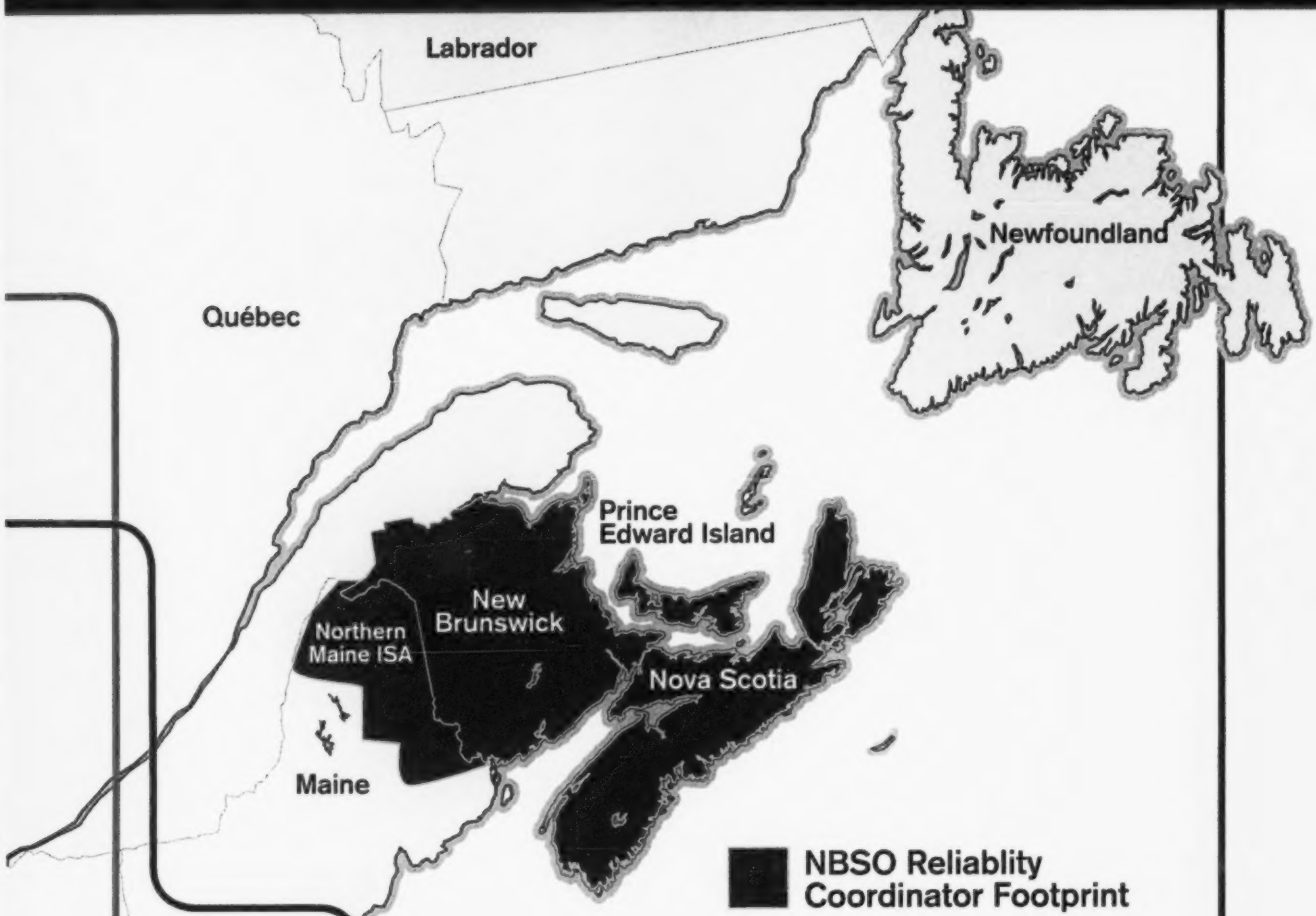
The System at a Glance

New Brunswick Market	Unit	2010	2009	2008
Peak load	MW	2,877	3,176	3,078
Total generating capacity	MW	4,574	4,475	4,376
Total wind capacity	MW	294	195	96
Interconnections		6	6	6
Import capacity	MW	2,209	2,209	2,209
Export capacity	MW	2,592	2,592	2,592
Scheduled energy receipts	GWh	21,811	20,083	21,197
Scheduled energy deliveries	GWh	20,942	19,645	20,686
Scheduled transmission losses	GWh	869	438	511
Energy transactions within	GWh	9,717	10,839	13,222
Energy imports	GWh	3,693	3,026	1,941
Energy exports	GWh	2,305	1,959	2,741
Energy wheeling through	GWh	2,996	2,113	3,292

Balancing Authority Area	Unit	2010	2009	2008
Peak load	MW	3,124	3,489	3,298
Total generating capacity	MW	5,012	4,898	4,799
Total wind capacity	MW	404	392	171

Reliability Coordinator Area	Unit	2010	2009	2008
Peak load	MW	5,205	5,514	5,373
Total generating capacity	MW	7,509	7,280	7,172
Total wind capacity	MW	567	527	348





Québec has plans to increase hydroelectric capacity by 1,000 MW by 2013 and wind capacity by 2000 MW by 2015

Emera and NB Power are exploring expanding the transmission capacity between Nova Scotia and New Brunswick by 500 MW.

PEI has a goal of expanding wind capacity from 165 MW to 500 MW by 2013

Newfoundland and Labrador Hydro intend to develop 3000 MW of hydro generation with the Lower Churchill Project by 2015.

Nova Scotia is targeting 25% renewable energy by 2015 and 40% by 2020.

Maine and New Brunswick are exploring expanding transmission capacity by up to 1,500 MW

Message from the Chairman and President and CEO

We are pleased to submit the 2009-10 Annual Report of the New Brunswick System Operator.

In 2009/10, with the New Brunswick power industry standing at a crossroads amid a fast-shifting landscape driven by environmental concerns and with an objective of increasing trade with our surrounding counterparts, the NBSO demonstrated its ability to maintain the reliability and adequacy of the grid while facing these challenges. NBSO staff responded to these challenges by rethinking our operations and how our market is to serve customers.

Curtis Howe
Chairman,
Board of Directors

As a public organization critical to the welfare and interests of New Brunswick, the NBSO has to be constantly mindful of the reasons for its existence. We have, therefore, redefined our mission and vision to ensure that the NBSO continues to meet the needs of our stakeholders.

The NBSO has adopted an annual strategic planning process providing a longer term horizon and reaffirming the direction taken by the NBSO to become self-sufficient, harness renewables to the power grid, manage an ageing workforce, adapt to provincial and federal policies, while optimizing opportunities to integrate new technologies into the grid.

The hiring of all the employees formerly seconded from NB Power was a critical milestone in the history of the NBSO. The full compliment of our organization being under only one governance structure will be instrumental in managing change. The NBSO will be able to assume with more efficiency our leadership role in grid operations, market design and electricity system planning.

With the support and expertise of our employees, the NBSO will continue its leadership role in New Brunswick and the region in the development and integration of new ways of managing power needs, ensuring both reliability and security of supply, while meeting environmental objectives at affordable prices in the longer term.

Sylvain Gignac
President and CEO

Market Advisory Committee

The Market Advisory Committee (MAC) met four times during 2009-10. This was a reduced schedule as a proposed sale of NB Power to Hydro Québec during the year created uncertainty with respect to the future.

The MAC reviewed and made a positive recommendation to the NBSO Board of Directors on an extensive set of amendments to the Market Rules that will facilitate the development of Non-Dispatchable Variable Generation aimed at addressing increasing capacity of wind generation. The amendments balance the need to maintain system reliability while maximizing the output of renewable generation as a least cost operating resource.

The MAC identified and reviewed potential amendments to the Electricity Act, Open Access Transmission Tariff, and New Brunswick Electricity Market Rules that would better meet the needs of customers.

The MAC also had preliminary discussions on the need to revise the transmission loss factor in the Tariff and its impact on the Residual Monthly Costs.

In the year, the MAC reviewed and provided input into the NBSO "State of the Market Report" and "10-Year Assessment of the Adequacy of Generation Transmission Facilities".

The MAC reviewed the methodology for setting production limits during periods of excess zero priced generation.

In 2009-10, the MAC reviewed methodologies for optimizing the system on a more frequent basis and recommended that "within the hour" optimizations would occur on an ad hoc basis, triggered by a unique event.

Finally, the MAC discussed the market impact of New England's tie benefits claim and there was a general agreement that all members would make a best effort to ensure that the Maritime perspective was understood in New England.

Market Advisory Committee membership includes representation from generators, marketers, transmission providers, distributors, large industry, environmental interest and the NBSO.

MANAGEMENT DISCUSSION AND ANALYSIS

System Operations

Maintaining a secure and reliable integrated electricity system requires effective and efficient management of a complex mix of human and technical resources while complying with industry criteria and standards, market rules and procedures as well as NBSO policies, procedures and guidelines. System Operations also includes an Operations Services and Settlement function that coordinates transmission and generation resources, forecasts demand and ancillary services to ensure reliable operation of the transmission system and administers the Open Access Transmission Tariff (OATT) and market settlement.

The year 2009-10 was busy but with no major events impacting reliability. The focus in the year was on renewing and updating existing infrastructure and strengthening resources.

In 2009-10, two generating stations in the New Brunswick System were retired. The coal fired Grand Lake station rated at 57 MW and the hydro station at Musquash rated at 2 MW were taken out of service. An addition to generating capacity in the year was the Caribou wind farm near Bathurst, New Brunswick, rated at 99 MW.

Resource adequacy assessments were completed for up to 18 months out, and down to next day requirements. Included in the assessments were generator outages, transmission limitations, load forecast and ancillary services requirements to ensure that sufficient generation is available when needed.

Operation of the transmission system and administration of the OATT resulted in revenues of $103 million in 2009-10, $3 million higher than in the previous year. Included in the increase were emergency energy transactions in the December and January period. The adjacent table shows capacity and count volume information for 2009-10 that demonstrates an open access transmission system.

A project to upgrade the infrastructure in the system operator's control room was initiated in the year to reconfigure the space and provide new ergonomically improved work stations to support the 24/7 control room environment. This initiative provides a better environment to support operators working 12 hour shifts as they ensure reliability of bulk power systems in the Reliability Coordinator footprint.

Also initiated in the year is an initiative to respond to the issue of an ageing workforce.

Type	Class	Increment	MW Total of Schedules	Count of Schedules
Network	Firm	Hourly	1,476,128	84,966
		Monthly	223	1
		Yearly	10,035	7
Point to Point	Firm	Daily	13,782	136
		Weekly	2,173	27
		Monthly	7,294	128
		Yearly	1,388	17
	Non-Firm	Hourly	258,922	7,405
		Daily	424	22
		Weekly	272	9
		Monthly	516	23
	Secondary	Hourly	45,235	748
		Daily	710	61
		Monthly	254	21

The NBSO is focusing recruitment, training and retention efforts toward this demographic reality in this key area of operations, recognizing that training of operators is a multi-year effort before they become "shift ready". Plans include the training of two new operators each year for the next three years. The two new operators in training in 2009-10 completed North American Electric Reliability Corporation (NERC) certification and training in the control room. In addition, on going training requirements for existing operators must include 200 NERC Continuing Education Hours every three years. In 2009-10, all operators due for re-certification met this requirement.

Transmission System Reservations (MW) Fiscal 2009-10

- Hourly Network: **1,476,128**
- Hourly Point to Point: **304,157**
- Daily: **14,916**
- Weekly: **2,445**
- Monthly: **8,287**
- Yearly: **11,423**

Within the role of the Reliability Coordinator is the requirement to ensure readiness for events that could result in a partial or complete black out of the area. The NBSO planned and carried out System Restoration Drills on two occasions in 2009-10, involving 80 participants representing system operators, utilities, large industrial customers and other interested parties in the Reliability Coordinator footprint.

The completion of the migration of employees previously seconded from NB Power has aided in the efficient carrying out of reliability and system operations duties, including the provision of operations engineering support that is now within the System Operations team.

Supporting System Operations are two key Information Technology (IT) initiatives. The first is preparations for a NERC Critical Infrastructure Protection (CIP) audit. The NBSO is subject to audit for compliance with all reliability standards. Preparations include review of policies, procedures, equipment lists and engineering drawings to identify any gaps from standards.

A second IT initiative is replacement of the data acquisition program known as SCADA/EMS (Supervisory Control and Data Acquisition / Energy Management System). Support for the system has not been available due to its age and hardware parts have only been available from retired systems. During 2009-10, a consultant was retained to provide technical specifications and act as a purchasing agent that led to negotiations with a vendor by end of year. The purchase and implementation of this system, estimated to cost $3 million will be a next step in 2010-11. This system will be treated as a capital item, financed and amortized over its service life.

Looking forward, a number of initiatives will improve system reliability including extensive maintenance at Point Lepreau Generating Station, now delayed until 2012, the addition of a new tie transformer at Norton terminal, a Keene Road project including a new line and transformer scheduled for fall 2010 and a complex outage at Orrington to complete repairs to the Series Capacitor.

MANAGEMENT DISCUSSION AND ANALYSIS

System Compliance

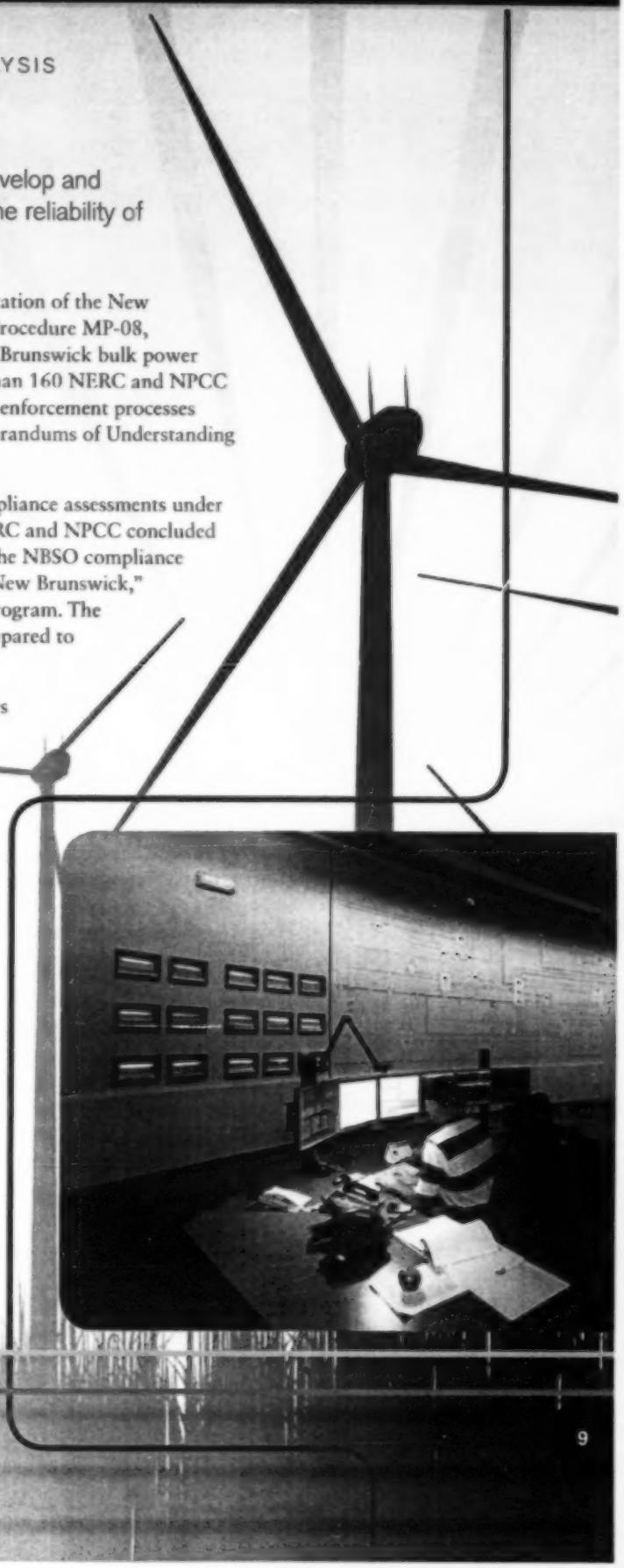
During 2009-10, the NBSO continued to develop and implement compliance programs to ensure the reliability of the bulk power system.

Fiscal 2009-10 marked the first full year of implementation of the New Brunswick Reliability Compliance Program, Market Procedure MP-08, applicable to owners, users and operators of the New Brunswick bulk power system. Under this program the NBSO adopts more than 160 NERC and NPCC standards and carries out compliance monitoring and enforcement processes according to an arrangement established under Memorandums of Understanding signed with NERC and NPCC in 2008.

During 2009-10, the NBSO carried out over 100 compliance assessments under MP-08. In November 2009, a program review by NERC and NPCC concluded that "Overall, the NPCC Evaluation Team finds that the NBSO compliance procedure MP-08, "Reliability Compliance Program New Brunswick," covers the aspects of a strong reliability compliance program. The NBSO compliance staff is knowledgeable and well prepared to implement this compliance program."

In August 2009, the NBSO implemented the Maritimes Area Reliability Compliance Program. This compliance program establishes the organization and processes necessary to implement and monitor compliance with NPCC requirements in the Maritimes Area. It is applicable to entities in the Maritimes Area that are members of NPCC or who have otherwise signed an agreement with NBSO. The NBSO serves as the program administrator and compliance monitor.

The NBSO will continue to strengthen its Compliance role as it builds and enhances its own internal reliability compliance program. This work will improve the management of evidence of compliance records and strengthen the NBSO's ability going forward to more efficiently demonstrate compliance with reliability standards that are applicable to the NBSO.



MANAGEMENT DISCUSSION AND ANALYSIS

System Planning

Within its mandate, the NBSO is to undertake and coordinate power system planning and development to maintain and ensure the adequacy and reliability of the integrated electricity system for present and future needs and for the efficient operation of a competitive market. An objective of the NBSO planning process is that it be coordinated, open, and transparent to all Transmission Customers and interconnected neighbours on a nondiscriminatory basis.

To facilitate its objective of an open planning process, NBSO hosted its first Transmission Planning Workshop on June 24, 2009. Approximately 125 persons attended with stakeholder representation including Transmission Planners from New Brunswick, Nova Scotia and Prince Edward island, municipalities, members of the New Brunswick Market Advisory Committee, load serving entities, Distribution Providers, large industry, the departments of Energy and Environment for the Province of New Brunswick and the provincial Regulator, the New Brunswick Energy and Utilities Board. Presentations at this workshop included, transmission planning responsibilities, design criteria, system needs, proposed projects, facility connection process, and stakeholder involvement in transmission planning.

Additional transmission planning workshops are to be hosted by NBSO on an annual basis. These future workshops may include additional presentations from the NBSO regarding its participation on various Northeast Power Coordinating Council (NPCC) committees, including the development of Transmission Planning Standards.

Sustainable Energy

Market rule changes were implemented within the year that facilitate the integration of non-dispatchable renewable generation such as wind power into system operations and market settlement. Given their minimal production costs and dependency on wind conditions, operating wind farms in a similar fashion as hydro or thermal power generating facilities is impractical. The rule changes allow wind farms to produce as much as they can in normal conditions. In times of surplus generation, the wind farms may be subjected to curtailments as required to preserve system reliability. Deviations from the scheduled production by wind farms are settled at the hourly balancing market's clearing price. Curtailments, should they be required, are to be performed on a fair and well-defined basis.

A connection requirements guide for wind power generation was drafted and stakeholder feedback is to be incorporated in a final version. This document addresses some of the shortcomings of the existing standard generation connection agreement. That standard agreement was adopted in 2003 and was not written with wind power generation in mind. The connection requirements guide for wind power generation also consolidates and simplifies a number of technical requirements thereby assisting potential wind farm developers.

Literature research and a forecasting pilot led to an enhanced understanding within the organization as to the need for operational wind power production forecasting services. Those exercises also provided information on the capabilities of commercial providers of forecasting services. The new knowledge better positions NBSO to undertake competitive procurement of a commercial wind power production forecasting service. The NBSO's use of the forecasting service will contribute to reliability and efficiency in operation of the power system.

MANAGEMENT DISCUSSION AND ANALYSIS

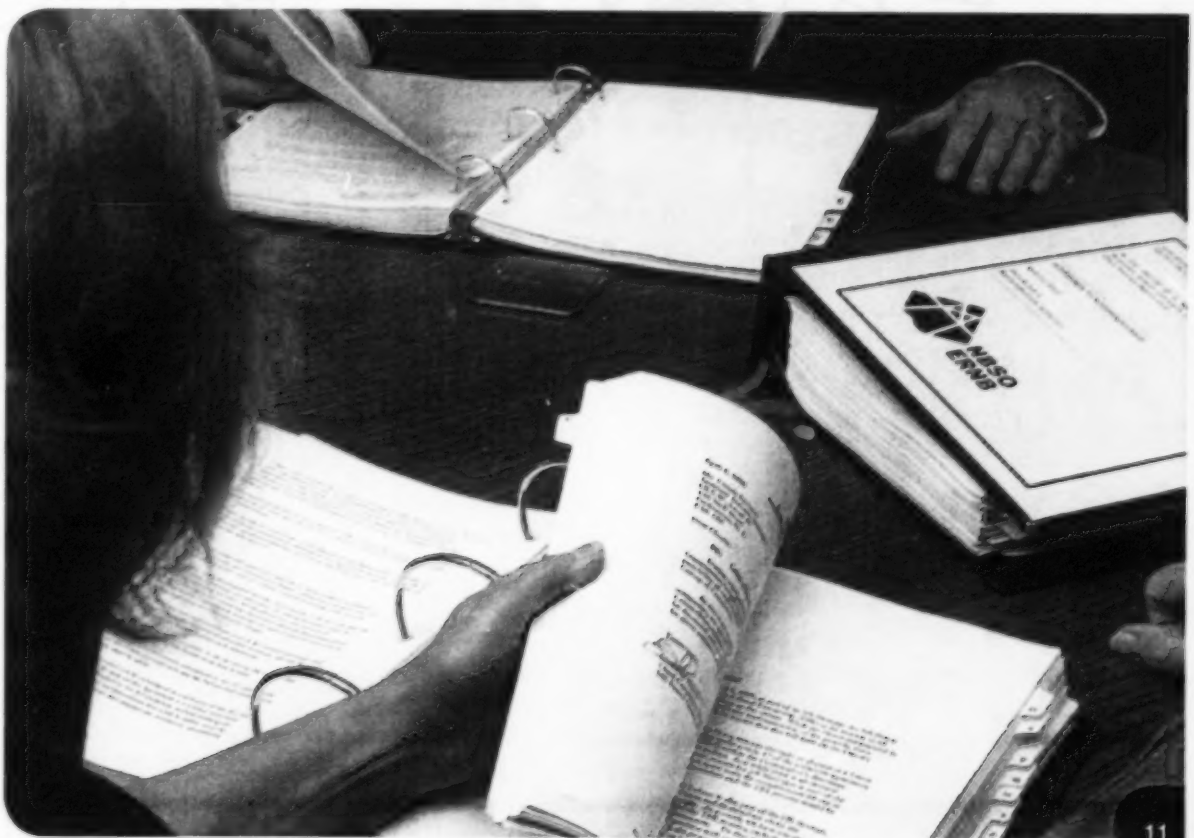
Legal and Regulatory

During the Summer and early Fall of 2009, the major activity in Legal and Regulatory was preparation of the NBSO's annual revenue requirement for the following fiscal year.

Shortly before the scheduled filing of this application, however, the MOU between New Brunswick and Hydro-Québec was signed, and the regulatory proceeding was put on hold. The department's focus shifted then to the due diligence exercise related to the proposed re-integration of the NBSO into NB Power and subsequent sale to Hydro-Québec. In late January, when it was announced that the NBSO would remain an independent entity, the regulatory process resumed with respect to the 2010/11 revenue requirement. The delay in the proceedings, however, required the NBSO to seek interim relief, which was granted just before the end of the fiscal year.

The department also played an active role during the year in the migration strategy, particularly with respect to labour relations matters related to the transfer of employees from NB Power to the NBSO.

Looking to the 2010/11, Legal and Regulatory activities will be centered on as many as three hearings before the Energy and Utilities Board, along with contractual and labour relations matters airing out of the completion of the migration strategy.



MANAGEMENT DISCUSSION AND ANALYSIS

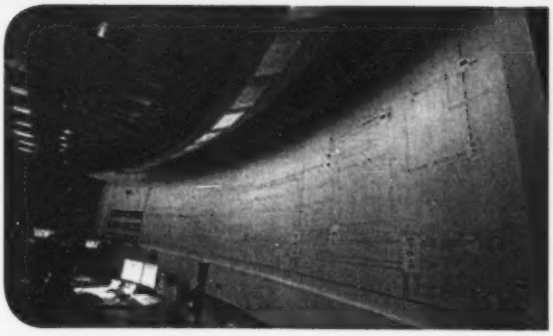
NBSO Organizational Development

The NBSO business plan for 2009-10 included a number of strategically driven objectives that included organizational development, comprehensive power system planning, assessing and increasing transmission access, increasing coordination with other markets and facilitating development of renewables. Several projects arising from these objectives were planned for the fiscal year.

The initiatives of the NBSO and the entire electric power industry in New Brunswick were significantly affected by commercial discussions that took place between the governments of Québec and New Brunswick throughout the 2009-10. The nature of those discussions was announced on October 29, 2009 and a Memorandum of Understanding (the "MOU") between the two provinces was released publicly at that time. The proposed agreement represented fundamental structural change in the electric power industry in New Brunswick. The MOU explicitly included a transfer of NBSO's functions to NB Power and the transfer of the obligation to serve to Québec.

The NBSO responded by halting a number of its projects and redirecting resources in support of the provincial government's efforts to implement the proposed transaction. This support was provided as the NBSO continued to fulfill its mandate with respect to ongoing reliable operations and an efficient market. However, a revised transaction was announced on January 20, 2010 which called for the continued existence of the NBSO as an independent and distinct organization. Accordingly, the NBSO's support of the province's efforts was shifted to reflect the revised transaction – again, all while fulfilling NBSO's legislated mandate. This support continued up to the March 24, 2010 announcement of the termination of discussions between the two provinces, essentially coinciding with the March 31 end of the NBSO's fiscal year.

Projects included in the business plan that were undertaken within the fiscal year include a review of the organizational structure, securing of additional office space, direct hiring of seconded employees, hiring to fill new positions, reviewing the transmission tariff and market rules, piloting a wind power production forecasting service, revising the market rules to accommodate wind power, and reviewing the transmission planning process.



Office Space

Prior to 2009, the NBSO was housed completely within the Energy Control Centre (ECC) building located on Canada Street in Marysville, New Brunswick. However, with increasing responsibilities and the associated growth in employee numbers, the NBSO was in need of office space. A search was initiated and additional space was found less than 8 km away in the form of 5,775 square feet of leased office space in a new building at 510 Brookside Drive. Operation from two different locations is considered to be a temporary compromise as a solution to the need for additional space. Work toward a new office space solution will be initiated in 2010-11 with the goal of having a permanent work space arrangement at the expiry of this temporary lease arrangement in 2014.

Human Resources

The NBSO saw significant growth in 2009-10 with the addition of 6 new positions.

A Plan of Establishment was developed to identify and track staffing and to support the annual NBSO Revenue Requirement filing submitted to the Energy and Utilities Board.

In 2009-10, the NBSO conducted job competitions for two power system operators, two planning engineers, a general accountant and an economist. Although delayed during the discussions involving New Brunswick and Hydro-Québec, these positions have been filled, helping the NBSO to further develop its organization.

Completion of the Migration Strategy led to termination of the secondment agreement with NB Power and transfer of the seconded staff to the NBSO. The intent of the strategy was to terminate the Secondment Agreement and firm up the management team of the NBSO.

Plans for 2010-11 include the addition of 7 positions to the organization. They are an operational engineer, two compliance engineers, two Information Technology professionals, a human resource assistant and a market development officer.

Succession Plan

Given the highly specialized and complex nature of the NBSO business operation and the long lead time required for new staff to acquire the required knowledge, skills and abilities to perform their responsibilities, the NBSO must forecast employee turnover and staffing of new positions as thoroughly as possible.

The NBSO has identified future retirements and developed succession planning procedures that involve constant monitoring and updating the current and forecast Plan of Establishment by management and reporting to the Board of Directors.

In the upcoming year, the NBSO has three retirements including the Controller position, an Administrative Analyst and an Operation and Market Settlement Specialist.

Board of Directors and Corporate Officers

Curtis Howe, P.Eng.
Chairman
President, Mariner Partners, Inc.,Saint John, NB

Robert W. Saintonge
Chair, Human Resources Committee
Financial Consultant and Former Deputy Minister, Province of New Brunswick

Fred Hutchinson
Member, Human Resources and Governance Committee
Business Broker, Cooke Insurance Group

Anne Hickey
Audit Comittee Member
Labour Market Information Analyst Service Canada

Brian H. Curry, CA
Chair, Audit Committee
Retired Partner, Curry & Betts, Chartered Accountants

Sylvain Gignac
President and CEO

Kevin C. Roherty
Secretary and General Counsel

Executive Team

Sylvain Gignac
President and CEO

Jean Finn
Executive Vice-President, Planning and Development

Kevin C. Roherty
Secretary and General Counsel

Mark Jardine
Controller

Ross Stairs
Vice-President, Operations

Norm Seely
Manager, Human Resources and Administration Services

NBSO Financials

New Brunswick System Operator

Financial Statements
March 31, 2010
(in thousands of dollars)

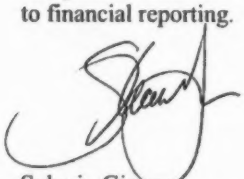
MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The financial statements of the New Brunswick System Operator (NBSO) were prepared by management, in accordance with Canadian generally accepted accounting principles which involve the use of significant accounting judgments and estimates in selecting and applying appropriate accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains systems of internal controls necessary to provide reasonable assurance that the accounting records are reliable, and that NBSO's assets are properly safeguarded. Internal Audit conducts reviews to ensure that the corporation's internal controls and procedures are adequate, consistent and applied uniformly.

The independent audit firm of PricewaterhouseCoopers LLP, Chartered Accountants, has audited and reported on the financial statements. Their opinion is based on their audit conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatement.

The Board of Directors is responsible for evaluating management in the performance of their financial reporting responsibilities, and has approved these financial statements. The Board of Directors reviews and recommends approval of the financial statements and meets periodically with management, the independent auditors and the internal auditor, concerning internal controls and all other matters relating to financial reporting.



Sylvain Gignac
President and Chief Executive Officer

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
300 Brunswick House
44 Chipman Hill, PO Box 789
Saint John, New Brunswick
Canada E2L 4B9
Telephone +1 (506) 632 1810
Facsimile +1 (506) 632 8997

July 29, 2010

Auditors' Report

To the Board of Directors of the
New Brunswick System Operator

We have audited the balance sheet of the **New Brunswick System Operator** (NBSO) as at March 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of NBSO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of NBSO as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

New Brunswick System Operator

Balance Sheet

As at March 31, 2010

(in thousands of dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash	3,920	2,329
Accounts receivable	8,413	11,137
Prepaid expenses	219	130
	12,552	13,596
Property and equipment (note 3)	3,000	2,660
	15,552	16,256
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	10,577	11,389
Deferred regulatory liabilities (note 4)	2,119	1,963
Current portion of capital lease obligations (note 5)	108	92
	12,804	13,444
Accrued benefit liability (note 6)	284	244
Obligations under capital lease, net of current portion (note 5)	2,464	2,568
	15,552	16,256

Approved by the Board of Directors

Curtis Howe Chairman

B McCurry Director

New Brunswick System Operator

Statement of Operations and Changes in Net Assets

For the year ended March 31, 2010

(in thousands of dollars)

	2010 $	2009 $
Revenues		
Transmission:		
Point-to-point tariff	36,745	32,872
Network tariff	46,004	48,456
Power factor penalty	844	1,028
	83,593	82,356
Ancillary services	18,917	17,294
Miscellaneous	1,006	1,194
	103,516	100,844
Expenses		
Transmission	83,593	82,356
Ancillary services	8,036	7,284
Operation, maintenance and administration	9,461	9,199
Amortization	109	84
	101,199	98,923
Other income (expense)		
Interest income	5	94
Interest expense on capital lease	(203)	(252)
	(198)	(158)
Deferral of regulatory liabilities	(2,119)	(1,763)
Net surplus for the year and net assets	–	–

New Brunswick System Operator

Statement of Cash Flows

For the year ended March 31, 2010

(in thousands of dollars)

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net surplus for the year	–	–
Items not affecting cash		
Amortization	109	84
Net change in non-cash working capital items	1,979	(966)
Net change in accrued benefit liability	40	(69)
	2,128	(951)
Investing activities		
Purchase of property and equipment	(449)	–
Financing activities		
Principal repayments under capital lease	(88)	(84)
Net increase (decrease) in cash during the year	1,591	(1,035)
Cash – Beginning of year	2,329	3,364
Cash – End of year	3,920	2,329

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

1 Nature of operations

The New Brunswick System Operator ("NBSO") is an independent, government, not-for-profit entity responsible for directing the operation of the transmission system, administering the Open Access Transmission Tariff (OATT) and is the reliability coordinator for the Maritime area.

NBSO has its own independent Board of Directors.

Income arising from the operation of NBSO is exempt from federal and provincial income taxes.

2 Significant accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies:

Regulation

NBSO is subject to regulation by the New Brunswick Energy and Utilities Board (EUB) (formerly the New Brunswick Public Utilities Board (PUB)). The regulations cover such matters as tariff rates and accounting policies. NBSO's accounting policies conform to GAAP in the electricity transmission industry in Canada and also reflect the policies prescribed by the EUB. Costs and credits are deferred on the balance sheet as regulatory assets and liabilities for amounts which would otherwise be included in earnings, when authorized to do so.

Revenue recognition

Monthly settlements of market participants' energy imbalance and residual monthly costs are not reflected in NBSO's Statement of Operations since they do not represent revenues or expenses of NBSO as NBSO merely acts as an intermediary in the settlement process. In this role, NBSO receives and disburses funds to/from market participants in the month following the month in which transactions occurred.

NBSO's approved tariff, the OATT, allows recovery of NBSO's operating expenses through Schedule I services provided to market participants. The method of recovery of Schedule I and II costs changed April 2009 as per the November 26, 2008 decision of the EUB. Monthly Schedule I and II revenues collected from market participants are now based on their transmission usage as a proportion of total usage multiplied by one twelfth of the annual revenue requirement. Previously, revenues were earned monthly, weekly, daily or hourly dependent upon transmission reservations.

Transactions from bilateral contracts between market participants are not included as transactions of NBSO.

Other ancillary services and miscellaneous revenues are recognized as the related services are provided.

Transmission revenues, ancillary service revenues, energy imbalances and residual monthly costs are calculated based on metering data provided by market participants and transmitters. The accuracy of these amounts is dependent upon third party meter data collection, estimation and validation procedures which are not the responsibility of the NBSO.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

2 Significant accounting policies (continued)

Property and equipment

NBSO has an arrangement with New Brunswick Power Transmission (NBPT) in which it leases the Energy Control Centre, which has been treated as a capital lease in accordance with the recommendations of EIC 150 "Determining whether an arrangement contains a lease". This property and equipment is carried at cost less accumulated amortization. Amortization has been computed at rates equal to the principal lease repayments using the effective interest method, which is sufficient to amortize the cost of the property and equipment over their estimated useful lives as follows:

Buildings	32 years
Equipment	7 years
Security system	10 years

In 2010, NBSO also has set up capital asset categories for furniture and equipment, leasehold improvements and assets in the course of construction. These are amortized as follows:

Furniture and equipment	10 - 15 years
Leasehold improvements	15 years

Assets in the course of construction are not amortized until the assets are available for use.

Foreign exchange transactions

Foreign currency revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. The resulting foreign currency exchange gains and losses are included in the determination of net surplus for the year.

Cash

Cash consists of cash and short-term deposits with original maturities of three months or less held with banks. They are classified as financial assets held-for-trading and carried at fair value.

Financial assets and liabilities

Accounts receivable are classified as Loans and Receivables and accounts payable and accrued liabilities, deferred regulatory liabilities and capital lease obligations are classified as Other Financial Liabilities. These financial assets and liabilities are initially measured at fair value and, after initial recognition, they are measured at amortized cost using the effective interest method.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

2 Significant accounting policies (continued)

Employee benefit plans

Benefit obligations for defined benefit post-retirement plans are determined by independent actuaries using the project benefit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees.

The benefits charge or credit recognized consists of:

- the aggregate of the actuarially computed cost of benefits provided in respect of the current period's service;
- imputed interest on the accrued benefit obligation;
- the amortization of past service costs from plan amendments, over the average remaining service period of employees active at the date of amendment; and
- the amortization of experience gains or losses, in excess of 10% of the accrued benefit plan obligation at the beginning of the period over the average remaining service period of employees.

Defined contribution plan accounting is applied to multi-employer defined benefit pension plans for which the NBSO has insufficient information to apply defined benefit plan accounting. The benefit cost is the NBSO's required contributions to the plan.

Management estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

3 Property and equipment

	Cost $	Accumulated amortization $	2010 Net $	2009 Net $
Assets leased from NBPT (note 5)				
Building	2,426	83	2,343	2,356
Equipment	446	283	163	232
Security system	77	11	66	72
	2,949	377	2,572	2,660
Other assets				
Leasehold improvements	87	–	87	–
Furniture and equipment	296	8	288	–
Assets in the course of construction	53	–	53	–
	436	8	428	–
	3,385	385	3,000	2,660

In 2010, the NBSO made leasehold improvements to the Energy Control Center as well as purchasing equipment for the Control Room. Additionally, furniture was purchased for another leased office location.

At the end of 2010, certain costs have been treated as construction in progress. These costs are partial costs for replacement of the Supervisory Control and Data Acquisition/Energy Management System also known as SCADA/EMS. This project will continue in 2011.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

4 Deferred regulatory liabilities

The following regulatory liabilities were included in the "Deferred Regulatory Liabilities" line on the balance sheet:

	Unforeseen future events $	Surplus (Deficit) $	Total $
March 31, 2009	200	1,763	1,963
Distributions in the year	(200)	(1,763)	(1,963)
Deferrals in the year	–	2,119	2,119
March 31, 2010	–	2,119	2,119

The PUB previously approved the retention by NBSO of $300 to cover unforeseen future events. In 2008, a Settlement Agreement was filed with the EUB and became part of the application for changes to the tariff. In its decision of November 26, 2008 the EUB approved the elimination of the retained surplus account. $100 was included in the rebate of the 2007/08 surplus. The remaining $200 was rebated with the surplus from 2008/09 in the current year.

In addition, the PUB decided that it is not appropriate for NBSO, as a not-for-profit entity, to have a surplus or a deficit. The surplus of $1,763 reported in 2009 was distributed to market participants in July 2009, and the current year's surplus has been deferred and is expected to be rebated later in calendar 2010. Included in the fiscal 2010 net surplus of $2,119, is a deficit of $55 arising from regulation and load following for wind (Schedule 3c service). It is NBSO's intent not to net this deficit against the overall surplus, but rather to carry the deficit forward to offset potential future surpluses from Schedule 3c. No amounts have been recorded relating to this deficit pending approval by the EUB.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

5 Obligations under capital lease

Effective April 30, 2005, NBSO entered into an agreement with NBPT under which NBSO became responsible for the full cost of the Energy Control Centre. This arrangement has been accounted for as a capital lease. Interest is being charged at 8% (2009 - 9%) and monthly payments of principal and interest for fiscal 2010 amount to $18 (2009 - $20) for the building and $7 (2009 - $8) for the equipment and security system.

The minimum annual lease payments under this arrangement are as follows:

	$
Year ending March 31, 2011	302
2012	302
2013	224
2014	224
2015	224
Thereafter	4,579
	5,855
Less: Imputed interest	3,283
	2,572
Due in less than one year	108
Due after one year	2,464
	2,572

Under the current arrangement, capital additions other than leasehold improvements to the Energy Control Centre are financed and amortized by NBPT.

6 Employee future benefits

NBSO has the following plans providing pension and other post employment benefits to its employees:

Pensions

NBSO's employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of New Brunswick under the Public Service Superannuation Act ("PSSA"). The plan provides pensions to employees of the Provincial Government and certain Crown corporations and agencies based on length of service and highest successive five-year average salary.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

6 Employee future benefits (continued)

Pensions (continued)

The plan was 96.1% funded as of April 1, 2008, the date of the most recent external valuation of the plan. The Province has advised participating corporations that the unfunded liability is being funded through annual escalating payments. Payments by NBSO to the plan during the year to March 31, 2010 were $143 (2009 - $121) and future payments, if required, will increase by the annual growth in CPI plus 2%. Future actuarial valuations may change the funding requirement.

Executive supplemental pension benefits

NBSO also has an unfunded, non-contributory pension plan that provides supplemental pension benefits over and above those provided by the PSSA to certain designated executives.

Retirement allowances

The retirement allowance program is an unfunded non-contributory plan that provides employees a lump-sum payment upon retirement, equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. Previous years of employment with the Provincial Government and certain Crown corporations and agencies qualify toward the participants' entitlements under this plan.

Other post retirement benefits

Employees of NBSO are entitled to a life insurance benefit of $15 payable in the event of death after retirement. In addition, executives who retire after age 60 are entitled to an extension of their group benefits to age 65, at NBSO's expense.

The net benefit cost recognized during the year to March 31, 2010 in relation to the executive supplemental pension benefits, retirement allowances and other post retirement benefits plans was $57 (2009 - $108).

Information about NBSO's executive supplemental pension benefits, retirement allowances and other post retirement benefit plans as at March 31, 2010 (measurement date), based on extrapolations of actuarial valuations prepared as at April 1, 2009 for accounting purposes are as follows:

	2010 $	2009 $
Accrued benefit obligation	386	403
Unamortized past service costs and actuarial losses	(102)	(159)
Accrued benefit liability	284	244

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

6 Employee future benefits (continued)

Other post retirement benefits (continued)

The significant actuarial assumptions adopted in measuring NBSO's accrued benefit obligation and net benefit cost for the executive supplemental pension benefits, retirement allowances and other post retirement benefits plans are as follows:

	2010	2009
Discount rate at end of year used to determine the accrued benefit obligation	6.30%	6.50%
Discount rate at beginning of year used to determine the net benefit cost	6.50%	5.25%
Rate of compensation increase to determine the accrued benefit obligation and the net benefit cost	2.50%	2.50%

A 10% and 7% annual rate of increase in per capita costs of covered medical care and dental benefits respectively has been assumed for 2010. Medical cost inflation is assumed to decrease to 7% by 2014 and remain at that level thereafter.

7 Financial instruments

Fair value

NBSO's financial statements include cash, accounts receivable and payable, deferred regulatory liabilities and capital lease obligations. Due to the short-term maturity of cash, accounts receivable and payable, the carrying value of these instruments are reasonable estimates of their fair value. The fair value of deferred regulatory liabilities has not been determined as it cannot be readily measured as there are no specified repayment terms. The fair value of the capital lease obligations payable to NBPT is affected by changes in the prevailing level of interest rates. NBSO has not entered into any financial instruments to hedge the fair value exposure associated with this item. The carrying value of this obligation is believed to be a reasonable approximation of its fair value.

Credit risk

Financial instruments which potentially subject NBSO to concentrations of credit risk primarily consist of accounts receivable billings due from market participants, the majority of which relate to 2 customers, namely New Brunswick Power Generation and New Brunswick Power Distribution and Customer Service for $7,459 (2009 - $9,185). No allowance has been provided for accounts receivable at March 31, 2010 as management considers all accounts receivable to be probable of collection. NBSO's tariffs establish specific periods for the adjustment of settlement invoices as originally billed and for challenges to amounts billed for a particular service month.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

7 Financial instruments (continued)

Credit risk (continued)

Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service month. If NBSO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NBSO is exposed to credit risk until all settlement adjustments and final invoices for each service month are finalized and liquidated. However, NBSO is allowed to recover bad debt losses from the remaining market participants in future billings.

As per OATT, Section 7.1, each invoice shall be subject to adjustment for any errors in calculations, meter readings, estimating or otherwise, up to twelve months after the date of original issuance. These invoices may be challenged by market participants up to 10 days after the date of original issuance.

Interest rate risk

NBSO is exposed to interest rate risk as future changes in the prevailing level of interest rates affects the cash flows associated with its cash. NBSO has not entered into any financial instrument contracts to hedge this interest rate exposure.

Currency risk

NBSO is subject to minimal foreign exchange risk as less than 1% of its revenues and less than 1% of its expenses are denominated in foreign currencies. NBSO has not entered into any foreign exchange contracts to minimize the effects of foreign exchange fluctuations on its operations on these financial statements.

New Brunswick System Operator

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

8 Related party transactions

The NBSO is related to the NB Power group of companies through common ownership by the Province of New Brunswick.

Revenue and expenses

The following related party revenues and expenses are included in the financial results for the year ended March 31:

	2010 $	2009 $
Revenue		
Transmission revenue	70,218	67,837
Ancillary services	16,217	14,392
Miscellaneous	577	641
Expenses		
Transmission expense	83,465	82,221
Operations expenses	5,724	5,841
Ancillary services	7,157	7,284
Miscellaneous	246	219

Receivables and payables

The following related party receivable and payable balances existed as at March 31. The amounts included in accounts receivable and accounts payable are subject to the normal payment terms extended to unrelated parties:

	2010 $	2009 $
Accounts receivable	7,484	9,305
Accounts payable	8,259	8,857

9 Supplemental cash flow information

	2010 $	2009 $
Cash flows from operating activities include		
Interest received	5	94
Interest paid	203	252

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
300 Brunswick House
44 Chipman Hill, PO Box 789
Saint John, New Brunswick
Canada E2L 4B9
Telephone +1 (506) 632 1810
Facsimile +1 (506) 632 8997

July 29, 2010

Additional Comments of Auditors

Energy imbalance and residual monthly costs are presented as supplementary information only. In this respect, they do not form part of the financial statements of New Brunswick System Operator (NBSO) for the year ended March 31, 2010 and hence are excluded from the opinion expressed in our report dated July 29, 2010 to the Board of Directors on such financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements of NBSO and, in our opinion, is fairly presented in all respects material to those financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

New Brunswick System Operator

Supplemental information (unaudited)

For the year ended March 31, 2010

(in thousands of dollars)

Energy imbalance and residual monthly costs

The total energy imbalance and residual monthly costs that represent the settlement of the transactional volume of energy and energy related products in NBSO's market during the year ended March 31, 2010 amounted to $19,832 (2009 - $24,369). The above amounts include $14,508 (2009 - $21,995) credited to and $14,671 (2009 - $20,801) charged to the NB Power group of companies.

Energy settlements for the year include $381 of adjustments relating to prior years, resulting from multi month adjustments made in February 2010 arising from incorrect use of metering data provided to the NBSO.